A STUDY OF INVESTMENT OPPORTUNITIES AND PROBLEMS OF HONG KONG ELECTRONICS MANUFACTURERS IN SHENZHEN: A CASE STUDY

by

CHEUNG SAU HING, VANDY 張秀卿

YUEN SUK CHUN, SYLVIA 阮淑珍

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ABSTRACT

With Hong Kong's export boom leading to a labour shortage in the territory, more and more businessmen are moving their production over the border to the Shenzhen Special Economic Zone and nearby villages in Guangdong province.

Nowadays, many Hong Kong electronics manufacturers have shifted their production sectors to Shenzhen SEZ because it does not only help alleviating the upward cost pressures generated by the tight labour situation but also enlarge significantly local manufacturers' capabilities to receive overseas orders in terms of both quantities and varieties. Apart from giving readers a clear picture of the current investment climate of Shenzhen SEZ, this study also analyses opportunities and identifies problems the local electronics manufacturers will be facing in the direct investment in Shenzhen. This research, in the form of case study, is mainly based on the findings from our in-depth interviews with the subject company and the secondary research data.

In short, Shenzhen SEZ still looks attractive to Hong Kong electronics manufacturers as a strategic location in China. Yet, owing to the increasing competition, the profit margins are likely to under great pressure during the coming years. Therefore, we hope that this study will provide more insights and information for those who are interested in further direct investment in Shenzhen SEZ.

TABLE OF CONTENTS

LISTS OF APPENDICES

Appendices

CHAPTER I

INTRODUCTION

The manufacturing industries in Asia have gone through a period of rapid changes in recent years. Following the appreciation of Yen, more and more production of medium and medium-high priced products shifted from Japan to Korea, Taiwan, Hong Kong and Singapore. At the same time, overseas direct investments from United States and China in Hong Kong are also very active (Table 1). The number of establishments by USA, Japan and China are found to be 163, 134 and 36 respectively in 1986.[1] On the other hand, many manufacturers shifted the production of low-priced products to low cost areas such as China, Malaysia, Thailand and the Philippines.

China, in particular, draws the world-wide attention basically for its commitment in carrying out the opening policies since 1979. It opens a lot of chances for foreign investors. From 1979 to 1983, there were 2452 contracts approved and in 1985, there were 2964. The foreign

investments have fluctuated during the past seven years (Table 2).

From July 1979 to December 1985, seventy-nine percent of foreign investments in China came from Hong Kong while investments from USA, Japan and European countries took only a small share and accounted for nineteen percent in China (Table 3). It is believed that there will be tighter relationships between China and Hong Kong in the coming years due to Hong Kong's status as Special Administrative Zone after 1997. Besides, the Hong Kong investors are more aware of and familiar with China's politics, economy, policy and legislation. Therefore, they dare to make investment in the Mainland China. In relation to the manufacturing industries, more reliance on the human resources and land supply of China is expected because of the ever increasing wages and labour shortage problem in Hong Kong.

Though China seems to be an attractive place for investors, there was no shortage of criticisms on its investment environment. Some foreign businessmen complained about random and exorbitant charges. They also complained about tedious and low-efficient formalities they have to go through. Many enterprises using foreign investments, in particular industrial enterprises, have problems in working capital, foreign exchange balance, supply of raw materials, import and export licenses, exercise of decision-making power, which mean difficulties in their implementation of contracts. Also, the results

from the questionnaire in a survey conducted by A. T. Kearney Consulting Company has revealed some of the snags:[2]

More than sixty percent of respondents were concerned about the quality and availability of raw materials. More than fifty percent cited problems relating to foreign exchange and the autonomy of their joint ventures. They complained about red-tape, slow decisions and overlapping controls over joint venture management. A major personnel problem was the joint venture's inability to hire and fire according to conventional western business procedures.

Since the shifting of production to China is the major trend and China seems to devote much efforts to improve the investment environment, it will be meaningful to examine the current situations of this type of investment, whether it deterioates or is improved.

Notes:

1. "Foreign investors boost manufacturing quality", The South China Morning Post, November 14, 1987.
2. "Time Ripe for Foreign Investment - on a Survey by A.T.Kearney Consulting Company", China Market, May, 1987.

CHAPTER II

METHODOLOGY

Research Objectives

Taken into consideration the enormous area of China, it is infeasible if not impossible to conduct a country-wide study on the topic of direct investment in China. Therefore the focus of our study is put on Shenzhen Special Economic Zone.

Shenzhen SEZ has been an exceptionally good strategic location for Hong Kong electronics manufacturers in terms of its ample factory space and cheap labour costs. As more and more manufacturers move their production sectors into the area, the competition become more severe. Therefore, it will be of great interest to see whether the foreign investors can still maintain high profits in the years ahead and whether opportunities are still available for the Hong Kong electronics manufacturers.

Many Hong Kong investors have complained about their problems encountered in investing in China. Indeed, several of Hong Kong's more successful investments went

through some rocky start-up period before establishing conditions needed to make them successful.

Various industries have direct investment in China. To concentrate our effort, electronics industry is chosen for in-depth study. Its exports increase twenty-six percent in 1987. It is the second largest industry in Hong Kong and there were 260 electronics enterprises in Shenzhen, employing 30,000 local people and producing goods worth about HK$5 billion annually. Electronics industry showed the best results in Shenzhen in that its production value reached HK$5.2 billion forming more than forty percent of the total output value.[1]

To the end, we have formulated the statement of problem as well as our three-fold research objectives as follows:

1. Statement of Problem

   "Are there still investment opportunities for Hong Kong electronics manufacturers in Shenzhen SEZ? "

2. Research Objectives

   Our research are threefolds:-

a. To examine the investment climate of Shenzhen SEZ for the foreign investment.

b. To study the opportunities available to the Hong Kong electronics manufacturers invested in Shenzhen SEZ.

c. To study the problems encountered by them.

Research Methodology

To approach the problem, we adopt the standpoint of a potential Hong Kong manufacturer and direct the effort towards studying the individual investing firms on issues like motivations, investing organizations and operations. Therefore, we try to conduct our research in the form of case study. The rationale behind that is to undergo empirical studies on issues really met by the Hong Kong manufacturers. Also, case study allows more in-depth analysis and comes up with substantial proof on cost benefits.

There are many factors to be considered in this project but we will try to limit the investment opportunities and problems encountered in Shenzhen SEZ with respect to the following aspects:

a. production decision
b. investment form decision
c. location decision
d. investment procedures
e. labour and management
f. industrial land use
g. raw materials
h. infrastructure
i. tax system
j. preferential treatments

Source of Information

In order to study the investment climate and present situation of Shenzhen SEZ, we relied largely on literature research; books, periodicals, journals and newspaper clippings are our main sources of information. Since our research is in the form of case study, we carried out in-depth interviews with our subject company. At the same time, we also carried out other personal interviews with some local manufacturers who also have direct investment in Shenzhen so as to obtain more information about the opportunities and problems encountered by the investors. Opinions and materials obtained from Hong Kong Electronics Associations also form parts of our analysis.

Apart from this, we also visited Shenzhen SEZ and interviewed with the local manufacturers and workers there. This have provided us with a good knowledge on the Shenzhen SEZ economy and valuable insights on the investment climate there.

Limitation of Study

In conducting the business research project, we have encountered the problems in the following areas:

A. Secondary Data
   - unpublished data
   - most are in Chinese and need translation
   - published data not available in Hong Kong
   - inconsistent published statistics

B. Primary Data

- reluctant to disclose information from potential sources and subject company during in-depth interviews
- arrange trips to Shenzhen SEZ
- some difficulties in communication in Putonghua
- design of information sheet for personal interviews

C. Resource Limits

- time and costs to perform personal in-depth interviews
- time to complete the literature research
- conflict between primary and secondary data and how to solve the problems

Notes:

1. "Electronics Estate Plan by Shenzhen", The South China Morning Post, February 27, 1988.

CHAPTER III

SHENZHEN SPECIAL ECONOMIC ZONE

Investment Environment

Shenzhen Special Economic Zone, bordering on Hong Kong, is on the coast of South China Sea with a pleasant climate and transport facilities (see Appendix 1). Only a few years since the establishment of the Special Economic Zone, Shenzhen sees the municipal construction forging ahead and bringing about changes day after day. Now, it has a promising economic aspect which takes shape with industry as the base and with commerce, finance, trade and tourism flourishing at the same time.

The thriving economic situation is thus making Shenzhen a better place for investment, especially for those electronics enterprises. In recent years, the electronics industry is springing up so vigorously in the Special Economic Zone that it has become one of the pillars to the Zone's industry. However, it is necessary for the investors to study its investment environment and therefore, we have summarized the characteristics

of Shenzhen into the following areas:[1]

Shenzhen SEZ at a glance

Population: 500,000. Total work-force 258,000, including 52,000 cadres, 13,000 graduates and 25,000 with special training

Total area: 327.5 sq km

Gross industrial and agricultural output: 1987 forecast 5.4 billion yuan; 1986 3.65 billion yuan

Total investment: 10 billion yuan, 20% of this being foreign, both directly in industry and as loans

Main industries: textiles, electronics, light industry, machine building, pharmaceuticals, petrochemicals, building materials, food processing, tourism

Major exports: 1987 January to June. Textiles 35%, light industry 25%, pharmaceuticals 13%, electronics 17%, food processing 7%. Re-exports 15%, exports of upgraded products 15%

Port facilities: 25,000 tonnage capacity, being expanded by 50,000 tonnes

Tourism: total revenue January-August 1987 - 250 million yuan, 29.7% increase over same period in 1986. Up to 40,000 visitors cross the border from Hong Kong each day, and 100,000 from other parts of China

Facilities: about 100 hotels, 24,000 beds, including nine deluxe hotels. Overall occupancy rate: 40%

Direct Investment in Shenzhen SEZ

China is Hong Kong's second largest export market, while the territory is China's biggest trading partner, through which the mainland earned as much as a third of its total foreign exchange earnings. Since the adoption of the open policy to the outside world in late 1979, China has expanded its economic cooperation and trade with other countries and regions throughout the world. In July 1979, China established four special economic zones in Shenzhen, Zhuhai and Shantou in Guangdong, and Xiamen in Fujian. They attract foreign direct investments from other countries as well as from Hong Kong and Macau. The main objectives are to absorb foreign funds, technology and management expertise into China.

What kinds of direct investment are found in China? Direct investment in China includes foreign investment in joint ventures, contractual joint ventures (also known as cooperative management corporations), co-production, wholly foreign-owned enterprises and compensation trade.

There are different lines of investments in China (Table 4) and it has great potentials to siphon more foreign investments. As to Shenzhen in particular, the volume of foreign investments as well as the types of industries invested from 1979 to 1983 are depicted in the following tables.

FOREIGN INVESTMENTS IN SHENZHEN SEZ
FROM 1979 TO 1983

Form of Investment	Real Investment (in HK$10,000)
Joint Venture	35,723
Co-operative Joint Venture	138,372
Wholly-owned Foreign Investment	54,311
Compensation Trade	4,503
Co-production	55,282
TOTAL	288,191
Sphere of Investment	
Industry	129,901
Real Estate	78,935
Tourism	15,080
Commerce, Food & Service	22,465
Transportation	3,704
Agriculture & Husbandry	4,479
Others	43,517

From the above table, it is found that industry is the major area where foreign capital is put. However, China does not want Shenzhen SEZ to be just a manufacturing arm of Hong Kong. On the other hand, the zone needs as much foreign investment as possible and therefore, it produces what Hong Kong requires. Last year, more than 60% of the 1.8 billion yuan (about HK$ 2.16 billion) of foreign investment in Shenzhen came from Hong Kong, which also buys 80% of its exports for re-exports.[2] The dilemma is unlikely to disappear in the near future. Shenzhen authorities will continue to try to attract hi-tech projects, while Hong Kong's electronics and consumer goods manufacturers will continue to look at Shenzhen as a strategic location for production.

Special economic policies and managerial systems have been adopted for the special economic zones. In the export-oriented economy, chinese foreign joint ventures, cooperative management enterprises and wholly foreign-owned ventures are the more popular types of ownership. They are given more autonomy in business management than other parts of the country. However, before studying the opportunities and threats of direct investment in Shenzhen SEZ, it is important to know more about the characteristics of absorption of foreign investment by China's special economic zones in recent years:

Characteristics

1. Giving priority to export-oriented industrial projects -

   The Shenzhen SEZ used to give emphasis to tourism and service projects. It began to shift priority to industrial projects in 1986. Of the 224 projects it set up in 1986, 170 are industrial ventures. The contracts on industrial projects are valued at US$ 364.5 million, accounting for about 80% of the total foreign investment in the special economic zones. Up to 1988, the number of sole proprietorship, joint venture and cooperative management amounted to almost 8000, with annual production about 60% of the total industrial production of the city.

2. The Source of foreign investment has been enlarged - While investment made by Hong Kong still takes the first place, the investment from United States, Singapore, Japan, Canada, Malaysia, Thailand, Australia and Switzerland has also increased.

3. Economic efficiency has improved -

   In the first half of 1986, nearly 1,000 businesses in the four SEZs went into operation and their total industrial value topped US$ 5,000 million, six times as much as that before SEZs were founded. A number of their products have been entered the world market. The volume of export of Shenzhen SEZ in the first half of 1986 made up forty-three percent of its total volume of sales.

4. More favourable terms and preferential treatments have been granted to foreign investors. These preferential treatments will be discussed in the next section.

Preferential Treatments

In order to attract more foreign investment in the SEZ, the government has set up the preferential treatment scheme which offers some special terms and treatment to the investors. Since China promulgated the "Regulations in Encouragement of Foreign Investment" in October 1986 (see Appendix 2), many provinces and municipalities have worked out their own specific regulations and measures in their implementation. These provisions are formulated in order to improve the investment environment, facilitate the absorption of foreign investment, introduce advanced technology, improve product quality, expand exports in order to generate foreign exchange and develop the national economy. These preferential treatments are given to industrial investment in taxation, land use fees, rent for factory buildings, labour and wage and other areas.

Taxation

China's tax system relating to foreign investments is based on the fundamental open door policy. It focuses on how to benefit the development of sino-foreign economic

and technical co-operation and encourage investments and the import of technology.

To accommodate the establishment of the four Special Economic Zones, the opening of the fourteen Coastal Cities, and the establishment of economic zones in the Yangtze river Delta, Pearl River Delta and Xiamen, Quanzhou and Zhangzhou in southern Fujian, some special tax concessions are available. In addition, in order to further improve the environment for foreign investments and the import of technology, China announced 22 articles in October 1986 and these include several additional preferential tax treatments.

Characteristics

(1) The enterprises with foreign investments are exempted from the bonus tax and the rate of income tax is fifteen percent. In accordance with the regulation, there are two types of enterprises which can enjoy more preferential treatment. The projects with total amount of over US$5 million, advanced technology and fairly long turnover period enjoy exemption for two years and tax reduction by fifty percent for three years.

(2) Machinery and equipment, vehicles used in production, raw materials, fuel, bulk parts, spare parts, machine component parts and fittings (including imports restricted by the State), which enterprises with

foreign investment need to import in order to carry out their export contracts do not require further applications for examination and approval and are exempt from the requirement for import licences. The customs department shall exercise supervision and control, and shall inspect and release such imports on the basis of the enterprise contract or the export contract.

(3) The imported materials and items mentioned above are restricted to be used by the enterprise and may not be sold on the domestic market. If they are used in products to be sold domestically, import procedures shall be handled in accordance with provisions and the taxes shall be made up according to the government sections. The products exported by the enterprises in the SEZ are exempt from export duties.

Land Use Fee

In order to encourage the investors to invest and set up factories in the SEZ, special preferential policies are carried out in the land use fees. The site use fees for export enterprises and technologically advanced enterprises, except for those located in busy urban sectors of large cities, shall be computed according to the following standards:

(1) Five to twenty RMB yuan per square metre per year in areas where the development fee and the site use fee

are computed and charged together;

(2) Not more than three RMB yuan per square metre per year in site areas where the development fee is computed and charged on a one-time basis or areas which are developed by the above mentioned enterprises themselves.

Exemptions for specified periods of time from the fees provided in the foregoing provision may be granted at the discretion of local government.

The site use fees for the enterprises located in the Guangdong province is computed and charged according to the following standards:

(1) The annual rate of land use fee for industry and storage is 1-1.6 RMB per square metre;

(2) The land use fee for world-advanced technical projects is remitted in five years and reduced by fifty percent for another three years after the five years;

(3) The land use fee for specially technically-advanced projects can be remitted.

Rent for Factory Buildings

In order to suit the needs for the foreign investment, the local government in Shenzhen SEZ has invested funds for the construction of a number of standardized buildings. Thus, the Hong Kong electronics

manufacturers can rent these factory buildings at a reasonable costs. The monthly rent of the factory space in Shenzhen SEZ is about HK$21.8 per square meter.[3]

Labour and Wage

Labour cost is reduced. Wages of staff and workers in state enterprises of China consist of two parts. One is real wage and the other is all the subsidies to staff and workers paid by the state and enterprises. However, the "Twenty-two Articles" states that export enterprises and technological advanced enterprises shall be exempt from payment to the State of all subsidies to staff and workers, except for the payment of or allocation of funds for labour insurance, welfare costs and housing subsidies for Chinese staff and workers in accordance with the provisions of the State.

Other Preferential Treatments

Investors can open accounts and deal with matters related to foreign exchange in the Bank of China in the SEZ or other banks set up in the Special Zone with China's approval.

Legitimate profits of the investors after paying enterprises income tax can be remitted out of China through the Bank of China or other banks in the Special Zone in line with the Special Zone's foreign exchange

control measures.

The Shenzhen SEZ established a foreign-exchange regulating centre as early as 1985 to allow enterprises with foreign investment to regulate their surpluses. The new provisions permit prices to float freely.

Notes:

1. "Re-assessing the Shenzhen Experiment", Asian Business, January, 1988, p.45.

2. "Shenzhen Checkpoint to be Computerized", The South China Morning Post, March 3, 1988.

3. "Computing the Cost of Shenzhen Production", The South China Morning Post, September 20, 1987.

CHAPTER IV

OVERVIEW OF ELECTRONICS INDUSTRY IN HONG KONG

Classification

Appendix 3 shows the detailed breakdown of electronics by items such as electronic toys, electronic calculators, computers etc. Actually, electronic products can be divided into three major categories:

a. Electronic components -
   these include manufacturing of semi-conductors, capacitors, coils, transformers, printed circuit board (PCB), liquid crystal display (LCD) etc.

b. Consumer electronics -
   these include a wide range of consumer products such as multi-band radios, cassette, TV games, hand-held games, calculators, digital watches, television sets etc.

c. Industrial electronics -
   these include computer systems, telecommunication equipment, smoke detectors etc.

Past Performance

In terms of the total sales volume of export, electronics industry is the second largest industry in Hong Kong. In 1986, there is a total of HK$33,365,560 exported, an increase of twenty-four percent over over 1985. In 1987, the total value of domestic exports of electronics is HK$42,028,386, twenty-six percent increase to that of 1986. As at September 1987, total number of establishments manufacturing electronic products in Hong Kong is 1,180 with 78,562 employees.[1] It has been predicted that in the coming years, this industry will replace the textile industry to become number one in Hong Kong as electronic products have its growth potential in application, extended to toys.

Market

Major markets for consumer electronics in 1986 remained to be U.S.A., which took up 42.5% of the total electronics export in January to August 1987.[2] The first three markets for finished products of domestic electronics are U.S.A., China and F.R. Germany respectively.

Characteristics

Inherent in the production of electronic products are several characteristics that will be closely related to

the discussion of direct investment in China.

(1) Labour intensive -

Since the number of components used in an electronics product is tremendous and the sizes of these components are significantly small, it will be unprofitable to adopt automation in the production process, especially for the smaller scale factories and lower-end products. Thus, the production of consumer electronic products tends to be labour intensive.

(2) Division of labor and specialization -

The assembly line can be divided into major stations and this allows the labour to be trained to deal with specific parts of production quite easily.

(3) Space -

Because of the number of workers as well as the product nature, the industry requires a lot of space in production.

(4) Technology -

For higher-end products, the production process involves high technology.

Hong Kong has a serious problem of labour shortage and recent statistics show that there is less than 2 percent unemployment rate. This, together with the above characteristics shadow the prospects of electronics industry in Hong Kong and causes the major driving force of the direct investment in China.

Notes:

1. Report on 'Hong Kong's Domestic Exports of Electronics - by Items' by Hong Kong Trade Development Council

2. Hong Kong Trade Statistics
   Census and Statistics Department

CHAPTER V

COMPANY PROFILE

General Information

XXX Electronic Company Ltd. is chosen as our subject company. It is taken for a case study primarily because it is believed to represent a typical mode of operation very popular in Hong Kong nowadays.

XXX Electronic Company Ltd. started its business in April 1984. Its business concentrates on contract manufacturing of consumer electronic products for overseas customers in United States and Europe. XXX currently has one production operation in Shenzhen and an office in Hong Kong industrial building in Fo Tan which also acts as a warehouse. The company has in Shenzhen a workforce of 460 people which is expanded from 100 in 1984. In Fo Tan, there are twenty employees, increased from ten in 1984.

The factory in Shenzhen is responsible for the assembly and processing of products, with materials supplied by the company in Hong Kong. In the operation, a fixed term contract has been entered into between the

company and the local municipality under which the company provides the operation with all necessary raw materials, components, parts and equipment. These, together with the factory premises, labour and other production facilities provided by the Shenzhen counterpart, are exclusively devoted to the processing of the company's products.

Electronic products are assembled in stages, commencing with the soldering of transistors, integrated circuits and other electronic parts onto a printed circuit board to form the circuitry of the relevant product. Parts such as dials and loud-speakers are added to the basic circuitry and any necessary calibration or alignment is then carried out. Finally, the assembled parts are cased and the completed product is tested, packaged and dispatched. All the products manufactured in Shenzhen are transferred back to Hong Kong office for packaging, storage and delivery to customers in United States and Europe.

The products produced by the company includes radios of varying sizes and radio clocks. The prices of these products are given in the following Exhibit 1.

EXHIBIT 1

PRODUCT	PRICE
AM/FM Pocket Size Radio	HK$40
AM/FM Stereo/ Mono Portable Radio	HK$60
AM/FM Clock Radio	HK$55
Walkman	HK$50

Sales volume for the year 1987 from April 1 to October 31 amounted to HK$23,367,000. Compared with that of 1986, there is an annual growth rate of 43.4%. Exhibit 2 indicates the sales volumes of XXX from 1985 to 1987.

EXHIBIT 2

YEAR	DOLLAR SALES (HK$)	GROWTH RATE
1985	5,020,000	224.7%
1986	16,300,000	43.4%
1987	23,367,000	/

There is no provision in the arrangement with the company to share with the local municipality the profits derived from the products manufactured in Shenzhen. Judged from the sales volume, its number of employees and the product range, XXX Electronic Company Ltd. is a medium-sized organization engaged in consumer electronics.

CHAPTER VI

SET-UP STAGE DECISIONS

Production Decision

From statistics of recent years, it is found that electronics industry is a booming industry and is highly competitive. There are two types of competition, one is technology and the other is price. Technology competition is severe and critical for higher-end products like Hi-Fi and computers. For standard and mature products in medium to lower end, price competition is the key. As XXX Electronic Company Ltd. manufactures radios in lower-end, it faces price competition. Competition comes from the other Hong Kong radio manufacturers as well as manufacturers in developing countries like South Korea, Taiwan, Philippines and Thailand. These countries are characterized by having relatively cheap labor and land, and thus are capable of producing at lower costs.

With ever increasing wages and land costs, XXX has to shift its production to lower cost area instead of manufacturing domestically in Hong Kong and then

exporting. The decision was triggered by the need to survive in the price competition. This immediate need of cost reduction is dominant in its decision-making process of direct investment in China.

In international trade theory, there are basically three kinds of factors that influence the company to have direct investment in a country: company-specific factors, country-specific factors and industry-specific factors. Under company-specific factors, it is said that a company is driven to produce in a foreign country because productive capabilities are not available or equal terms to its competitors like spreading of overhead to achieve economies of scale. This is a push effect to create competitive superiority.

The pull effect is offered by country-specific factors which refer to labour force, markets and specific government incentives for foreign investments. Industry-specific factors means that economies of scale are significant and production tends to be concentrated in entities of large capacity.

Coupled with the previous discussion of the electronics industry as a whole and the incentives offered by Shenzhen SEZ, all of the above three factors operate in XXX Electronic Company Ltd..

Interesting to find in this case study is that the search for markets, the prime motive for most of the direct investments is not graded as very important. This is because the management is concerned with the

difficulties in entering into the China market. Details will be discussed in the next section on Investment Form Decision.

Investment Form Decision

Direct investment in China includes joint ventures, contractual joint ventures (known also as cooperative management corporations), co-production, wholly foreign-owned enterprises, compensation trade and material processing. They can be defined as follows:[1]

(a) Joint Ventures -

The allocation of shares between China and investors is usually 50-50. China provides the land for development, and also provides monetary investment if the potential for growth and development are attractive, Investors are responsible for the machinery and the equipment, and profits will be distributed according to the proportion of shares owned by each party.

(b) Co-operative Management Corporations -

There is no formal distribution of shares between China and the investors. Basically, China provides the land, labour and utilities (water, electricity etc) while the investors are responsible for all equipment and facilities, transportation and marketing. China will charge a modest processing cost. Profits obtained will be apportioned according

to some ration agreed by both parties, but usually the investors receiving a larger share.

(c) Co-production -

The investors are mainly concerned with the fabricating of manufactured items. China provides the plant, labour, water, electricity and other basic facilities. The foreign investor supplies machinery, materials, design of products and will be responsible for workers, wages, as well as for marketing. A modest processing cost is charged by China.

(d) Wholly-owned Foreign Investment

The foreign investor has to be responsible for all capital and equipment inputs into the industry and to bear all the overhead and recurrent expenses including land rent, utility cost and labour cost etc.

(e) Compensation Trade -

The costs of plant construction, machinery and raw materials, which are all provided by the investors, can be deducted from the production cost over a period of usually twenty five years. This form of investment is similar to 'co-production', except that the cost of plant, equipment and raw materials will be 'compensated' by the Chinese Government.

(f) Material Processing -

Under such a scheme, a foreign company would supply entirely or in part, raw materials, components and parts to the Chinese enterprise for processing or

assembly in accordance with the foreign firm's specifications. The finished product would be turned over to the foreign firm and the Chinese enterprise receive a fee for its services.

In terms of ownership, XXX Electronic Company Limited has chosen the form of sole proprietorship. That means, it is completely owned by the company.

This form of investment is chosen as the management is very concerned with the autonomy and flexibility of running the company and as little interaction with Chinese government as possible. With joint venture, the involvement of chinese official will be to a larger extent and this is not welcomed. It is the desire of the company to keep the involvement of China as little as possible. Joint venture is thought to suit larger scale investment in China as well as those who want to enter into the China market.

The company does not sell its products in the China market. All the finished products are transported back to Hong Kong and then shipped to foreign countries like U.S.A. In this aspects, it resembles material processing. The management thinks the market is not ready and that there are fundamental problems left unsolved even with the incentives provided. The problems are summarized as follows :

(1) lack of control over distribution channels

(2) heavy tax imposed on sales of products in China

(3) foreign exchange control

The above three factors are related closely to the policies of China. Though much has been talked about and improved in the infrastructure and incentives of foreign investments, China is not ready to open its market. This can be seen from its policy of encouraging export-oriented industries. In preferential tax policies, if the foreign investment enterprises are export-oriented, then when their terms of income tax reduction or exemption have come to an end, taxes will be levied at the rate of ten percent. The concession applies only to enterprises who export at least seventy percent of their products, judged by output value. Besides, one of the basic objectives of stimulating foreign investments is technology transfer. Therefore, in its policy formulation, the emphasis is on how to make running a plant in China profitable. However, the channels for selling these products is not easily accessible and income tax runs up to fifteen percent.

Foreign exchange control is a crucial factor in its decision of not to sell its products in China. As the profits earned cannot be transferred to Hong Kong, manufacturers solve the problem by using this profit to internally finance the plants in China. This will be beneficial only for companies who have diversified investments in China and thus be able to absorb the profits. Besides, the foreign exchange control limits the availability and mobility of the profits, allowing continuous expansion in the sectors in China. No substantiate benefits gained for the company outside

China.

Material processing seems to be more welcomed mode of investment in China as seen from the number of contracts on material processing in Shenzhen is more than 3,000 whereas on joint ventures and co-production is only about 600. The ratio is approximately five to one. This indicates the relative role of Shenzhen to the companies in Hong Kong. Shenzhen acts like a production assistance to the Hong Kong industries only. Direct investment in Shenzhen is initiated by its comparative advantage.

Location Decision

In the discussion of production decision, it is found that cost reduction is the major motive of XXX's direct investment. However, this motive in itself is not enough to explain why China and in specific Shenzhen should be chosen as the host country. In fact, there are countries known for their cheap labour and land supply like Philippines and Thailand. The fact that China is chosen as the host country may suggest there are considerations other than labor and land costs.

From the costing point of view, China enjoys the privileges of proximity. Transportation costs of raw materials, machinery and finished products are much cheaper than that in foreign countries. On the other hand, the management in XXX places great emphasis on cultural similarity and believe it to be crucial in

motivation and thus productivity. As they speak the same language, it facilitates communications. This accounts for the preference over Shenzhen to other zones in China

There was no preference over specific area for the factory in Shenzhen. The location of the plant is outside the city, taking about forty-five minutes for the bus to travel from Shenzhen city to YYY town. The fact that YYY town was chosen largely came from the suggestion of the chinese officials who wished to place new investors in remote areas of Shenzhen so as to quicken the development of the place. In motivating the new investors, special incentives are offered. Details of the terms can be found in the attached contract (see Appendix 4).

Notes:

1. "A Feasibility Study on the Investment Opportunities of the Shenzhen Special Economic Zone of The PRC", by Mr. Ip Tsun Ming, Robin, 1984.

CHAPTER VII

OPERATIONAL AFFAIRS AND CONSIDERATIONS

Investment Procedures

To establish a factory in Shenzhen, the company first contacted the Central Company for Shenzhen Foreign Trade Development who expressed their opinions on what to produce and where to produce. Contracts was signed on a two-year basis and the details of which were mainly finalized after negotiation with the counterpart.

The procedures of establishing enterprises with sole proprietorship are simpler than that of joint ventures and cooperative management corporations. First of all, the company has to present the application for establishing this kind of investment together with the prefeasibility studies which include the budgeted number of workers, budgeted land area, investment capital, what kinds of products to produce and the estimated sales volume to the Chinese officials. The proposed enterprises will be located either by themselves or by Chinese consulting services entrusted or other agent, subject to approval by

competent organ after they have been examined and approved. Competent organ will issue certificate of approval to the company whose establishment has been approved. The application should approach the local business administration to register and obtain license, within a month from the date of receiving the certificate of approval.

Provinces, autonomous regions, municipalities directly under the State Council, special economic zones (administrative zones), people's governments of coastal port cities and other cities authorized by the State Council will examine and approve those with the following conditions:

1. Total investment of the project does not exceed the amount stipulated by the State Council and the capital source of the Chinese partner is available;
2. They do not need additional allocation of raw materials by the State and they do not affect the national balance of fuel, energy, transportation and export quota in foreign trade.

The Ministry of Foreign Economic Relations and Trade is to examine and approve application for establishing enterprises with sole proprietorship. However, with regard to the application for establishment of joint ventures and cooperative management corporations, the State Planning commission will examine and approve project proposals and feasibility studies, and the Ministry of Foreign Relations

and Trade will examine contracts and regulations.

Problems Encountered by Investors

In the past, the lack of necessary documentation caused many problems for the foreign investors. Many people have complained that there are too many procedures to go through in making investments and setting up enterprises in China. The procedures are too complicated and the efficiency is too low. Comments from the interviewees reflect that the problem still persists. Therefore, in order to attract more foreign investments, much efforts have to be done on simplifying application procedures, improving efficiency and making more convenient for the investors.

Labour & Management

Before 1987, the relationship between XXX and China in terms of labour supply resembles co-production. The Chinese office is responsible for providing workers to the company. These workers are paid by the Chinese government. As stated in the contract, there is a standard of monthly wage of HK$ 450 on the basis of 8 hours a day and 25.5 day work a month. Under this mode of co-operation, the factory cannot dismiss workers without the permission of the relevant office.

Famous for its huge population, China has little to no problem in labour supply, in sharp contrast with the

serious labour shortage in Hong Kong. The employees in XXX Electronic Company Ltd. come from various provinces of Mainland China such as Shantung. Those are relatively remote areas. Attracted by the ample employment opportunities and relatively higher wage level, these people just flood into Shenzhen. Thus, steady supply of labour is secured.

Compared with the average basic wage of HK$2,200 per month, the cost of direct labour is only about 1/5 (HK$16 x 25.5 / 2200) of that in Hong Kong. This fraction is significant as wages are deliberately lowered by the chinese government. As mentioned in the section on Location Decision, YYY town is away from the center of the city. It is the attempt of the provincial office to offer attractive low labour cost and thus this can accelerate the development in towns. In Shenzhen SEZ, the average wage is about HK$850 per month.[1]

However, additional costs are incurred in the aspects of labour, namely the lunch fees and sometimes the residences for those coming from provinces outside Shenzhen.

In 1987, XXX changes the labour relationship with the chinese government. The major difference lies in the autonomy to dismiss workers. With the original scheme, XXX can complain about the workers and may request replacement. Yet, it has no right to dismiss any worker. The new scheme resembles the operation in Hong Kong. XXX can recruit, select and dismiss its own employees.

Compensation follows more or less with the original scheme in that there is a basic salary plus overtime payments. These overtime payments are received by the workers without the knowledge of the government. Usually, it is paid in Hong Kong dollars. The overtime premium becomes an effective tool of motivating the labour, unique in China. The Hong Kong dollars allow them to purchase goods not available for local chinese who use RMB yuan.

As a whole, the labour in the factory in Shenzhen are hardworking and place high value on monetary reward. They are more willing to work overtime, even for twelve hour-work a day, in order to earn more money. In particular, Hong Kong dollars as the overtime payments is also one of the incentives for them.

Ever since its operation in 1984, the subject company has still retained the structure of having two factory managers, one of which is assigned by the municipality of Shenzhen SEZ. In accordance to the contract, the municipality has also assigned a financial accountant to the company. The factory manager is responsible for the communications between the local municipality and the company. He will reflect any problems encountered by the company. Below his position are the assistant factory manager, senior foreman, line foreman, quality analyst, quality control personnel, technical staff and other workers. The top management will directly control over the others so that the management can be more efficient.

Opportunities

Sufficient labour supply and labour's willingness to work hard are encouraging characteristics of direct investment in Shenzhen. Cheap labour wage is also a definite advantage. With the new form of being wholly foreign owned, the original constraint in the lack of control in labour is resolved.

The major flaw of the original scheme was in the motivation of labour. As labour are paid by the government, there is no direct incentive provided by XXX. The wages they received were only Y$2-3 a day, which were very meager. As a result, labour attended the factory while did not really work hard. The productivity was low as expected with this kind of scheme. On the other hand, the quality of labour could not be controlled by the company.

The new scheme is beneficial to XXX as it can help maintain the quality of labour. Under the present scheme, the company enjoys more autonomy in recruiting and dismissing labour. Like the procedures in Hong Kong, XXX can advertise in an organization similar to Labour Department in Hong Kong or in posters on the streets. The company selects those found suitable. It encourages performance and thus can also improve productivity.

Problems

However, inherent in the labor aspects of direct

investment in Shenzhen is the relatively low education standard of these workers who may take more time to acquire the skills.

As the number of foreign investments in Shenzhen gradually increases, there is also an upward trend of labour wages. This phenomenon can be explained by that foreign investments tend to favour skilled labour. Those who have experience in related field is preferred so as to shorten the training period. Thus, they offer higher wages, targeting on these skilled chinese labour. The implication is that cheap labour cost may perish in the coming years.

Industrial Land Use

In the decision to "build" or "buy", major considerations involve the objectives of the direct investment as well as its confidence in the host country.

XXX Electronic Company Ltd. has adopted the "rent" policy. The factory and the land are wholly owned by the Chinese government. If the contract is terminated or expires and no further contract is signed, the factory and the land have to be given back to China. XXX is responsible for supplying necessary machinery, technology and raw materials.

In fact, before 1987, the charges on the labour supply, land use and other indirect expenses on electricity or water are grouped together under one system

called (包工人). Under this system, XXX paid the government a fixed amount of money for the number of workers it had employed as well as all other expenses such as electricity, rent, water supply. Compensation was on a daily basis. For every worker employed (eight hours per day), the Chinese government charged HK$16. In 1988, XXX switched to another form of cooperation with China, which is to rent the plant only. The rent amounts to Y$9000 per plant (three-storey building, total 30,000 square feet) The labour supply will be totally controlled and planned by XXX and the factory pays its own charges on electricity and water supply.

Opportunities

The change in the mode of relationship with China has been related to the stage of development of the company and also the infrastructure of the city:

Stage of Development

In its initial stage of investment in China, the company was not yet established. It did not have stable orders. On the other hand, the management had been very cautious in investing in China. And thus the production was quite limited at that time. The sales were small. With the system of (包工人), XXX could decrease the number of workers freely. And thus it could save money and lower the costs.

Infrastructure

The supply of electricity had been a major problem for the operation in China. It was expensive because of shortage. It always ran out of supply. Almost an average of two to three days a week in 1984. It meant that for a large proportion of the time, the factory could not operate. If XXX hired its own labour, it would have to bear the expenses for idle time.

These overtime payments match with the needs of the factory as the production is increasing after years of establishment. To cope with the large amount of orders and maximize the investment, twelve to fifteen hours of operation a day is not uncommon. Besides, electricity supply has been improved. Shortage for only about once every two weeks for one hour to four hours. These improved infrastructure together with new labour supply has drastically increased the productivity of the factory.

Raw Materials

For the components used in the assembly of the radios and radio clocks, they are imported from Japan and Taiwan. Some are supplied by other Hong Kong electronic manufacturers.

In the area of material supply, the company does not buy materials from China which seems to be a profitable source in regard to its proximity to the production site. The main rationale held behind is that the components

produced by the China-owned electronics companies are not suitable to be used in our products. Besides, in the special tax policies for Shenzhen foreign aid, foreign investment enterprises which use imported raw materials to produce export-oriented products will be exempt from industrial-commercial unified tax. Export products that are produced from Chinese raw materials, except for crude oil and processed oil, will also be exempt from the tax. This means that in terms of tax treatment in China, no special advantage can be gained in using Chinese raw materials.

In terms of tax treatment in exporting products to foreign countries, electronic products using Chinese raw materials do not enjoy special privileges either. For products like textile and garment, they can enjoy preferential taxation provided that fifty percent of the dollar amount of raw materials used in the production come from China.

Though no material is purchased from China, electronic components from Hong Kong is found to be largely produced in Mainland China. That is, these component manufacturers have also shifted the production to China, having the products transported to Hong Kong later. This pattern shows the problem of waste of resources. The same bulk of materials is transported from China to Hong Kong and then Hong Kong to China again. In this process, incur double transportation costs. Yet, the situation seems unlikely to be solved by individual

manufacturers as there is a lack of co-ordination office in Shenzhen that can make this sort of arrangements.

Because of its proximity, the materials can be transported via vehicles to Shenzhen SEZ within one day. For instance, in the morning 8:30 am the vehicles started the loading the materials and then transported to Shenzhen. Afterwards, they will be driven back to Hong Kong with the finished products. They can reach Hong Kong in the night at about 7:30 pm.

The means of transportation is relatively cheap. And normally within one day, the materials reach the production site. Yet, problems are also encountered. The procedures in applying the custom are criticized for being random and lack of standard. With the same kinds of documents and information, they may pass the custom for one time and fail at the other. This causes the management extra time to prepare the documents and difficulty in controlling the time.

In fact, custom in China has been criticized in several articles in Hong Kong magazines. The issue rests on the serious corruption by custom officials who sometimes deliberately cause troubles in order to gain benefits from the supplier. Very often, the company just pays this "extra-cost" to save trouble and time.

Infrastructure

General Comments on China

As a developing country, China lays behind the developed countries in urban infrastructural facilities, technical level and management expertise. This has caused much inconvenience and headaches to the investors coming from developed countries and regions. But from the very beginning of opening to outside world, China has devoted great efforts to improving investment environment and creating better conditions for foreign investors.

In recent years, China has accelerated the construction of harbours, airports, telecommunications, railways, highways and other infrastructural facilities in coastal open cities.

The fourteen coastal open cities and the four special economic zones now have 190,000-channel programme-controlled telephone switchboards, offering direct-dial services to more than forty countries and regions the world over.

The infrastructure can be considered as four major areas which include water supply, power supply, telecommunication and transportation.

Our Present Situation

At the moment, our subject company XXX is quite satisfied with the water supply and transportation. There

is adequate water supply and the basic road network is completed. Therefore, the company can transport their raw materials everyday from Hong Kong and brought back their finished products by using their own vehicles.

According to the interview with the subject company, the supply of electricity will halt several hours a week. In the past, the situation is even worse with sudden halt of supply several times a week and on average, the total halt period might last for 2-3 days per week.

Over the years, efforts have been made to build and improve the infrastructure of Shenzhen SEZ. The construction of energy, transport, telecommunication and other key facilities have laid a solid basis for the industrial development. By the end of 1986, fund used for these construction totalled RMB 11 billion yuan.[2] More than 10 million m^2 of construction area had been completed in Shenzhen alone, including workshops, commercial and tourist infrastructure and apartments. Therefore, we can see that nowadays, Shenzhen SEZ is quite modern with spacious factories and infrastructure to support them.

Opportunities

To maintain a constant supply of electricity has been a major problem for industrial development in China. However, the situation has been greatly improved over the past years. In order to cope with the increasing needs for electric power by Shenzhen SEZ, two new power stations are now under construction. A 700,000kW thermal power plant is

now being built at Shatian. Besides, a nuclear power station, China's first venture into nuclear power, is also under construction in Daya Bay. This together with the supply of electricity from the China Light and Power Company of Hong Kong, can surely lessen the worries of the foreign manufacturers. In 1986, electricity is also supplied to Shekou Industrial Zone by China Light and Power Company Limited.

Meanwhile, a double-track, electrified railway between Shenzhen and Guangzhou, an expressway linking Shenzhen to Guangzhou and Zhuhai, deep water ports at Mawan and Yantian (Salt Pan), an international airport are under construction. Also, there are signs of increasing international recognition. The Dutch-based multinational Philips is planning a television tube factory and Hong Kong's Cable & Wireless an international telecommunications center. The completion of these projects will greatly improve the Shenzhen SEZ's infrastructure and investment environment.

Problems

Although the investment climate of Shenzhen SEZ has greatly improved over the past few years, many people complained about the inadequate infrastructure. Problems also arise from the previously weak economic base and almost everything was built from stretch. There is no airport, though plans have been drawn up for one. Besides, many roads are unfinished and the ports facilities are

also considered inadequate.

Another major problems encountered by the manufacturers are the fluctuating supply of electricity. Though the supply of electricity has been improved, still it may halt several hours a week. Therefore, in order to enable a smooth run in the operations and production processes, many companies have installed several reserve dynamos for emergency use. Thus, this will incur additional cost to the production operations.

Notes:

1. "Counting the Cost of Shenzhen Production", The South China Morning Post, September 20, 1987.

2. "Optimistic Future for SEZs", China's Foreign Trade, Issue 7, 1987, p.35.

CHAPTER VIII

COST OF PRODUCTION

Comparison of Production Cost with Hong Kong

It sounds like a perfect solution to shift the production sectors into Shenzhen SEZ which have a cheap, hard-working and adaptable workforce within an hour or two of travel from Central, and low rent of factory space. However, is the Pearl River Delta really the remedy for problems bothering Hong Kong electronics manufacturers?

Labour in China is without doubt much cheaper than it is in Hong Kong. The going rate for each worker is about HK$600 to HK$800 a month. However, many companies are realising that their labour savings are being eaten away by the high cost of infrastructure facilities such as transportation and telecommunications plus many other additional costs (see Exhibit 3).

EXHIBIT 3

NORMAL COSTS	ADDITIONAL COSTS
SALARIES AND WAGES	
Basic salaries and wages	Purchase or rentals of homes for executive staff
	Expensive outlays in interior decoration, maintenance and management fees
ELECTRICITY AND WATER EXPENSES	
	Electricity more expensive than in Hong Kong
	Expensive components/spare parts for electric appliances long repair time
	Back-up electricity supply a must in time of blackouts
PLANT	
Rental	For products sold in China and sole proprietorship, charge 0.5 - 1% of sales for public facilities and management fees
COMMUNICATION	
Fax/Facsimile and telephone installation fee	A surcharge of telecommunication installation
Cable fee	Maintenance fee, door-code fee
	First-time registration fee
TRANSPORTATION	
	No direct ports bound for European markets and US markets

TARIFF

Tariff	A surcharge for small motor vehicles
	Expensive, unsystematic and unstandardized tariff(maximum at 1% of import goods value)
	Tariff are determined by relevant domestic units.

Source: Abstracted and translated from Hong Kong Economic Week

Exhibit 4 puts together the average price of each factor of production costs in Shenzhen and makes comparison with that in Hong Kong. As seen from this exhibit, labour is exceedingly cheap which is only thirty-eight percent of that in Hong Kong. However, electricity is surprisingly expensive and is 154 percent higher. Transportation is over 100 percent higher and so are the telecommunication expenses.

EXHIBIT 4. Comparison of Production Cost of Manufacturing in Shenzhen and Hong Kong

Investment Climate in Shenzhen and Hong Kong[1]
(All costs are in HK$)

	Shenzhen	Hong Kong	Ratio (%)
1. Labour			
(Salary)			
Worker	350/mon	2,200/mon	38
Technician	1,500/mon	3,200/mon	46
Managers	6-7,000/mon	8-10,000/mon	70
(Total Cost)			
Worker	23,400/yr	27,000/yr	87
Technician	31,300/yr	39,100/yr	80
Managers	100,000/yr	110,000/yr	90
(Total Costs includes salary, bonus, housing allowance, insurance and medical fee)			
2. Industry			
Water	0.675/m	2.11/m	32
Electricity	0.925/kwh	0.6/kwh	154
3. Land			
Factory space	21.8/m /mon	31/m /mon	70
4. Resident (Rent)			
(Rent)			
Villa	50/m /mon	120/m /mon	42
Apartment (50m)	1,000/mon	3,500/mon	38
Hotel (Hi-Class)	330/day	800/day	41
(Mid-Class)	250/day	450/day	55
5. Transportation			
Petrol (Car)	1,000/mon	1,000/mon	100
Maintenance	3,000/yr	1,500/mon	200
6. Telecommunication			
Phone installation:	6,000	600	1,000
Monthly Fee	125	48-71	260-176
Long-distance phone	(first 3 min)		
HK - Shenzhen	7.5/min	2.4/min	312
U.S.A.	18/min	12.3/min	146
Telex installation	5,000	790	670
Monthly Expense	870/mon	528/mon	164
7. Custom			
Application Fee	200 or 1% of value	5 for value less than 10,000 and 5 per 1,000 otherwise	

As the advantage of cheap labour cost and land use is cited as major driving force to the choice of production sector in China, seldom is there any concrete calculations on how much can be saved. Or is the real cost of production in China even greater than that in Hong Kong? Taking our advantage of being a case study, we try to estimate the percentage of saving for production in Shenzhen over that in Hong Kong. Assuming the same size of operation and the same quantities of factors of production are utilized, we get the following Exhibit 5. The cost of production is broken down into labour, electricity, water and rent whereas the additional costs of goods will include transportation, telecommunication, custom fees.

EXHIBIT 5

MONTHLY COST OF PRODUCTION

(All costs are in HK$)

	SHENZHEN	HONG KONG
LABOUR(360)		792,000 (2,200 x 360)
TECHNICIAN(100)		320,000 (3,200 x 100)
MANAGERS (HK:1 SEZ:1)		9,000 (9,000 x 1)
WATER	$16 per day per worker (exclusive of salary of the Hong Kong manager)	5,500 (2.11 x 2630)
ELECTRICITY		13,400(0.6 x 22,400)
LAND (FACTORY SPACE: 2787m^2)		86,397 (31 x 2787)
TOTAL	$193,000 (include the salary of Hong Kong manager)	$1,226,297

Source: XXX Electronic Company Limited and "Counting the Cost of Shenzhen Production", The South China Morning Post, September 20, 1987.

ADDITIONAL COST

Transportation	20,105
Telecommunication	6,600
Custom (Hong Kong)	6,921
Total	33,626

Other Untitled expense to improve mutual relationship 8,500

Proportion of cost of production in Shenzhen to Hong Kong when:

only rent, labour, water and electricity are concerned	16%
plus additional expenses in transportation, telecommunication and custom	18%
untitled expense to improve mutual relationship	19%

Quantitative analysis of cost of production in Shenzhen to that of Hong Kong suggests that the movement can significantly lower the costs even when additional costs and unexpected costs are also considered.

However, qualitative aspects of production in Shenzhen are not yet included here. A crucial factor for successful operations in Shenzhen is said to be good

relationship between the company and the relevant departments. Otherwise, time delay and problem of documentation will incur loss, unable to be estimated.

Therefore, investors planning for production activities across the border are advised to think twice before putting their investments into practice. In addition to the study of opportunities and problems of operating in Shenzhen SEZ, a thorough investigation of costs of production in major cities and the SEZ is also necessary for the success of running business there. These would then be compared with foreign countries and other nearby regions which are competing with China so as to formulate a strategy in investment competition.

Notes:

1. "Counting the Cost of Shenzhen Production", The South China Morning Post, September 20, 1987.

CHAPTER IX

SUMMARY AND CONCLUSIONS

Threats

As pointed out by Hong Kong Trade Development Council in a research report on the prospects of electronics industry in Hong Kong, the direction of the industry in the coming years will be towards high-technology products in order to remain competitive in the world market. In this aspect, the trend of moving production sector to China may be viewed as both problems and opportunities for the electronics industry.

With the simpler and basic parts be produced in China, it allows the sector in Hong Kong to specialize in product design and improvement in technology. Recently, Hong Kong Productivity Council has been working with the electronics manufacturers to improve their production and commodities so that advanced technology can be captured.

As the skills of the labour in China is still in a relatively low standard and only simple machinery has been transported to China, the advanced part of the production

has still to be operated in Hong Kong. That is, the production sector in China cannot fully replace the one in Hong Kong. Reliance on China production cannot be too extensive.

Cheap labour seems to be the dominant attraction to Hong Kong manufacturers. However, as the number of establishment in Shenzhen drastically increases over the years, the demand for labour, in particular, skilled labour becomes intensified. This leads to harmful competition in wages and fringe benefits. The potential danger is that wage will rise to the level at which the total cost becomes approximately equal to that in Hong Kong.

Prime motive of direct investment in a hosting country is market entry. Having a production sector there can improve the relationship/goodwill with the hosting country and thus facilitate the selling of products. In China, foreign exchange control discourages the investors from selling products there.

The lack of standard and problem of corruption in the custom poses hindrances to the trend of material processing in China as time needed to pass the custom cannot be accurately estimated.

Opportunities

Pessimistic as it may seem, there are still positive factors that suggest growing in the direct investment in

China by Hong Kong electronics manufacturers. The zone had a total output of HK$12 billion for 1987. Electronics industry showed the best results. Its production value reached HK$5.2 billion, forming more than forty percent of the total output value.

China's policy of technology transfer has paid much regard to high technology industries. Among them are electronics. Preferential treatments are given to encourage the investment of these industries.

As more and more Hong Kong manufacturers move the production sectors into China and specially Shenzhen, the pool of skilled labour available there increases. Labour remains to be an attractive factor for moving production to China. Part of the reasons comes from the loophole in labour regulation in China. In Hong Kong, there is control over the amount of overtime a worker can do, age and also compensation method in case of closure or dismissal. Whereas, in China, workers can work for a long period of overtime. Compensation in case of closure or dismissal is also not controlled.

The Hongkong-Shenzhen Electronics Joint Committee has been formed recently. This association was formed by the Hongkong Electronics Association and the Association of Shenzhen Electronics Industries. It reflects the growing significance of the local electronics industry. And it can gather together the electronics plants in Shenzhen and help Hong Kong manufacturers to set up subsidiaries in the special economic zone. Increased negotiating power from

the association and better communication for the factories in Shenzhen will improve the situation.

CONCLUSION

From interviews with the local manufacturers having direct investment in Shenzhen and the Hong Kong Electronics Association, it is suggested that direct investment in China will persist in the coming years. Investment in the form of material processing is more popular now since the electronics industry in Hong Kong is usually medium size and order-taking. To take China's comparative advantage of cheap labour and rent can greatly increase their competitive power, if not to survive.

The case study represents this typical mode. Through investigation of its operational affairs, it is found that "flexibility" is the dominant feature of Chinese practice. By flexibility, it means lack of standard procedures and lack of commitment to the terms stated in the contract.

Though stated in the contract that workers should be paid no less than HK$450 a month whereas in practice the worker receives about $350 only. This flexibility arises as a result of decisions subject to the discretion of provincial government.

The subject company pays only about $350 a month to a worker. Contrasted with the figure quoted in SCMP of $850, it suggests there may be wide range of differences in labour cost. Relationship with the municipalities and the province desire to develop the particular technology

will exert much influence on the price level. In this case study, the total cost of production in terms of money expense is still very cheap, suggesting profitable operations in China.

However, the degree of profitability for investors will depend on the location of the plant and the negotiation with the municipalities. With the establishment of the electronics estate in Shenzhen in the near future, it is believed that the prospects for electronics manufacturers in Shenzhen will be encouraging.

TABLE 1

OVERSEAS INVESTMENT IN HONG KONG
MANUFACTURING INDUSTRIES

Country	No. of Establish-ments	Net Acquisition of Fixed Assets in 1986	Investment at Original Cost before Depreciation
USA	163	658	8,053
Japan	134	421	4,009
China	36	120	2,981
UK	55	131	1,082
Netherlands	11	70	719
Philippines	7	7	342
Switzerland	23	7	338
Singapore	22	28	264
Australia	18	19	263
F.R. of Germany	32	19	237
Others	117	96	1,266
TOTAL	618	1,603	19,554

Source: "Foreign investors boost manufacturing quality", The South China Morning Post, November 14, 1987.

TABLE 2

FOREIGN INVESTMENTS IN CHINA
FROM JULY 1979 TO JULY 1986

Date	Number of Contracts Approved	Investments Accorded (in US$100 Million)	Actual Investments
1979-1983	2,452	74.53	26.85
1984	2,166	28.75	14.19
1985	2,964	62.16	18.78
Jan.-July, 1986	602	15.96	7.51
TOTAL	6,314	181.39	67.33

Source: "Absorbing Foreign Investment into China: Policies and Realities", China Trade & Investment, January, 1987, p.6.

TABLE 3

BREAKDOWN OF SOURCES OF FOREIGN INVESTMENTS
JULY 1979 - DECEMBER 1985

Countries and Regions	Input of Funds (US$100 million)	Percent	Remarks
Hong Kong	41.87	79	ranks first in investment projects and amounts
U.S.A.	4.24	8	ranks second in investment amount & third in investment projects
Japan	3.71	7	ranks third in investment amount & second in investment projects
Northern and Western Europe	2.12	4	
Asia & Africa	1.06	2	
TOTAL	53.00	100	

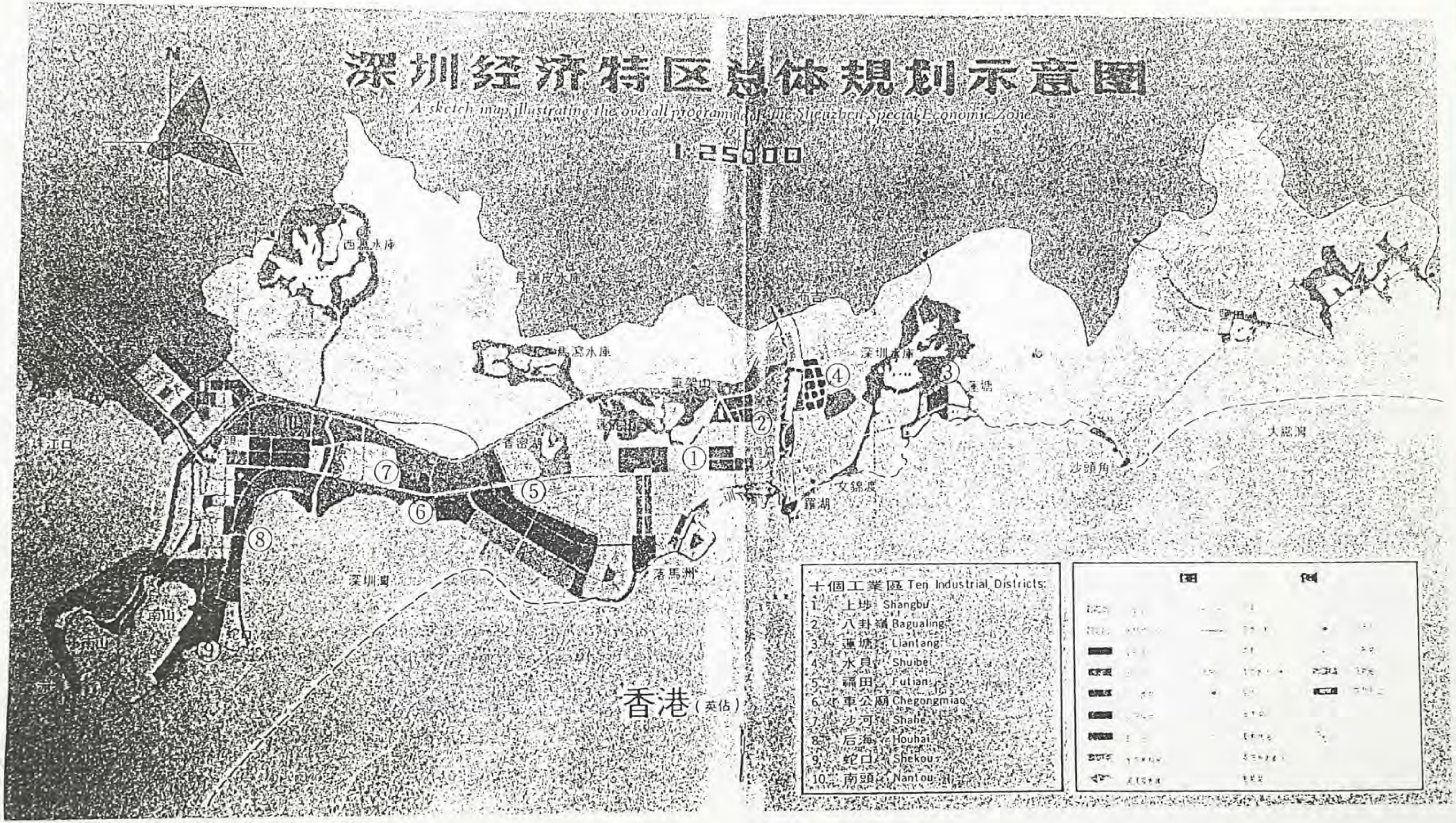
Source: "Absorbing Foreign Investment into China: Policies and Realities", China Trade & Investment, January, 1987, p.6.

TABLE 4

ORIENTATION OF INTERNATIONAL INVESTMENT (%)
JULY 1979 - DECEMBER 1985

Sphere of Investment	Equity joint ventres	Co-operative joint ventres	Wholly-owned foreign investments
Hotels and apartment hoses	44	50	10
Machinery and electronics	17	2	35
Light industry and textiles	24	5	30
Energy	10	15	0
Materials	0	10	20
Agricultre and husbandry	0	8	0
Services	5	10	5
TOTAL	100	100	100

Source: "Absorbing Foreign Investment into China: Policies and Realities", China Trade & Investment, January, 1987, p.6.


深圳经济特区总体規划示意图
A sketch map illustrating the overall programme of the Shenzhen Special Economic Zone
1:25000
N
深圳水庫
蓮塘
文錦渡
羅湖
沙頭角
大鵬灣
香蜜湖
落馬洲
深圳灣
南山
蛇口
香港（英佔）
十個工業區 Ten Industrial Districts:
1. 上埗 Shangbu
2. 八卦嶺 Bagualing
3. 蓮塘 Liantang
4. 水貝 Shuibei
5. 福田 Futian
6. 車公廟 Chegongmiao
7. 沙河 Shahe
8. 后海 Houhai
9. 蛇口 Shekou
10. 南頭 Nantou
圖 例

法律與條例

Provisions of the State Council of PRC for the Encouragement of Foreign Investment

(October 11, 1986)

Article 1 These provisions are hereby formulated in order to improve the investment environment, facilitate the absorption of foreign investment, introduce advanced technology, improve product quality, expand exports in order to generate foreign exchange and develop the national economy.

Article 2 The State encourages foreign companies, enterprises and other economic entities or individuals (hereinafter referred to as "foreign investors') to establish Chinese-foreign equity joint ventures, Chinese-foreign cooperative ventures and wholly foreign-owned enterprises (hereinafter referred to as 'enterprises with foreign investment') within the territory of China.

The State grants special preferences to the enterprises with foreign investment listed below:

(1) Production enterprises whose products are mainly for export, which have a foreign exchange surplus after deducting from their total annual foreign exchange revenues the annual foreign exchange expenditures incurred in production and operation and the foreign exchange needed for the remittance abroad of the profits earned by foreign investors (hereinafter referred to as 'export enterprises').

(2) Production enterprises possessing advanced technology supplied by foreign investors which are engaged in developing new products, and upgrading and replacing products in order to increase foreign exchange generated by exports or for import substitution (hereinafter referred to as 'technologically advanced enterprises').

Article 3 Export enterprises and technologically advanced enterprises shall be exempt from payment to the State of all subsidies to staff and workers, except for the payment of or allocation of funds for labour insurance, welfare costs and housing subsidies for Chinese staff and workers in accordance with the provisions of the State.

Article 4 The site use fees for export enterprises and technologically advanced enterprises, except for those located in busy urban sectors of large cities, shall be computed and charged according to the following standards:

(1) Five to twenty RMB yuan per square metre per year in areas where the development fee and the site use fee are computed and charged together;

(2) Not more than three RMB yuan per square metre per year in site areas where the development fee is computed and charged on a one-time basis or areas which are developed by the above-mentioned enterprises themselves.

Exemptions for specified periods of time from the fees provided in the foregoing provision may be granted at the discretion of local people's governments.

Article 5 Export enterprises and technologically advanced enterprises shall be given priority in obtaining water, electricity and transportation services, and communication facilities needed for their production and operation. Fees shall be computed and charged in accordance with the standards for local State enterprises.

Article 6 Export enterprises and technologically advanced enterprises, after examination by the Bank of China, shall be given priority in receiving loans for short-term revolving funds needed for production and distribution, as well as for other needed credit.

Article 7 When foreign investors in export enterprises and technologically advanced enterprises remit abroad profits distributed to them by such enterprises, the amount remitted shall be exempt from income tax.

Article 8 After the expiration of the period for the reduction or exemption of enterprise income tax in accordance

法律與條例

with the provisions of the State, export enterprises whose value of export products in that year amounts to 70 percent or more of the value of their products for that year, may pay enterprise income tax at one-half the rate of the present tax.

Export enterprises in the special economic zones and in the economic and technological development zones and other export enterprises that already pay enterprise income tax at a tax rate of 15 percent and that comply with the foregoing conditions, shall pay enterprise income tax at a rate of 10 percent.

Article 9 After the expiration of the period of reduction or exemption of enterprise income tax in accordance with the provisions of the State, technologically advanced enterprises may extend for three years the payment of enterprise income tax at a rate reduced by one half.

Article 10 Foreign investors who reinvest the profits distributed to them by their enterprises in order to establish or expand export enterprises or technologically advanced enterprises for a period of operation of not less than five years, after application to and approval by the tax authorities, shall be refunded the total amount of enterprise income tax already paid on the reinvested portion. If the investment is withdrawn before the period of operation reaches five years, the amount of enterprise income tax refunded shall be repaid.

Article 11 Export products of enterprises with foreign investment, except crude oil, finished oil and other products subject to special State provisions, shall be exempt from the consolidated industrial and commercial tax.

Article 12 Enterprises with foreign investment may arrange the export of their products directly or may also export by consignment to agents in accordance with State provisions. For products that require an export licence, in accordance with the annual export plan of the enterprise, an application for an export licence may be made every six months.

Article 13 Machinery and equipment, vehicles used in production, raw materials, fuel, bulk parts, spare parts, machine component parts and fittings (including imports restricted by the State), which enterprises with foreign investment need to import in order to carry out their export contracts do not require further applications for examination and approval and are exempt from the requirement for import licences. The customs department shall exercise supervision and control, and shall inspect and release such imports on the basis of the enterprise contract or the export contract.

The imported materials and items mentioned above are restricted to use by the enterprise and may not be sold on the domestic market. If they are used in products to be sold domestically, import procedures shall be handled in accordance with provisions and the taxes shall be made up according to the governing sections.

Article 14 Under the supervision of the foreign exchange control departments, enterprises with foreign investment may mutually adjust their foreign exchange surpluses and deficiencies among each other.

The Bank of China and other banks designated by the People's Bank of China may provide cash security services and may grant loans in renminbi to enterprises with foreign investment.

Article 15 The people's governments at all levels and relevant departments in charge shall guarantee the right of autonomy of enterprises with foreign investment and shall support enterprises with foreign investment in managing themselves in accordance with international advanced scientific methods.

Within the scope of their approved contracts, enterprises with foreign investment have the right to determine by themselves production and operation plans, to raise funds, to use funds, to purchase production materials and to sell products; and to determine by themselves the wage levels, the forms of wages and bonuses and the allowance system.

Enterprises with foreign investment may, in accordance with their production and operation requirements, determine by themselves their organizational structure and personnel system, employ or dismiss senior management personnel, increase or dismiss staff and workers. They may recruit and employ technical personnel, managerial personnel and workers in their locality. The unit to which such employed personnel belong shall provide its support and shall permit their transfer. Staff and workers who violate the rules and regulations, and thereby cause certain bad consequences may, in accordance with the seriousness of the case, be given differing sanctions, up to that of discharge. Enterprises with foreign investment that recruit, employ, dismiss or discharge staff and workers, shall file a report with the local labour and personnel department.

Article 16 All districts and departments must implement the 'Circular of the State Council Concerning Firmly Curbing the Indiscriminate Levy of Charges on Enterprises'. The people's governments at the provincial level shall formulate specific methods and strengthen supervision and administration.

Enterprises with foreign investment that encounter unreasonable charges may refuse to pay and may also appeal to the local economic committees up to the State Economic Commission.

法律與條例

Article 17 The people's governments at all levels and relevant departments in charge shall strengthen the coordination of their work, improve efficiency in handling matters and shall promptly examine and approve matters reported by enterprises with foreign investment that require response and resolution. The agreement, contract and articles of association of an enterprise with foreign investment shall be examined and approved by the departments in charge under the State Council. The examination and approval authority must within three months from the date of receipt of all documents decide to approve or not to approve them.

Article 18 Export enterprises and technologically advanced enterprises mentioned in these provisions shall be confirmed jointly as such by the foreign economic relations and trade departments where such enterprises are located and the relevant departments in accordance with the enterprise contract, and certification shall be issued.

If the actual results of the annual exports of an export enterprise are unable to realize the goal of the surplus in the foreign exchange balance that is stipulated in the enterprise contract, the taxes and fees which have already been reduced or exempted in the previous year shall be made up in the following year.

Article 19 Except where these provisions expressly provide that they are to be applicable to export enterprises or technologically advanced enterprises, other articles shall be applicable to all enterprises with foreign investment.

These provisions apply from the date of implementation to those enterprises with foreign investment that have obtained approval for establishment before the date of implementation of these provisions and that qualify for the preferential terms of these provisions.

Article 20 For enterprises invested in and established by companies, enterprises and other economic organizations or individuals from Hong Kong, Macao, or Taiwan, matters shall be handled by reference to these provisions.

Article 21 The Ministry of Foreign Economic Relations and Trade shall be responsible for interpreting these provisions.

Article 22 These provisions shall go into effect on the date of issue.

HONG KONG'S DOMESTIC EXPORTS OF ELECTRONICS

- By Items -

Value : HK$'000

STTC Code/Description		1986		1987		% Change	
		Value	% Share	Value	% Share	86/85	87/86
	TOTAL	23,365,360	100.0	42,028,386	100.0	+ 24	+ 26
	Finished Products	22,328,441	66.9	27,302,608	65.4	+ 37	+ 33
751111	Automatic typewriters and word-processing machines	722	*	23,525	0.1	n.a.	..
	Electronic calculators	937,814	2.8	1,038,401	2.5	+ 70	+ 11
751213	- Electronic calculating machines, pocket type	916,463	2.7	1,006,753	2.4	+ 70	+ 10
751214	- Electronic calculating machines, non-pocket type	21,351	0.1	32,648	0.1	+ 50	+ 53
751230	Cash registers incorporating a calculating device	-	-	2,668	*	-	=
751820	Photo-copying apparatus	406,863	1.2	780,246	1.9	+ 181	+ 92
	Computers	1,272,299	3.8	1,873,377	4.5	+ 55	+ 46
752200	- Digital automatic data processing machines, containing in the same housing at least a central processing unit and an input & output unit, whether or not combined	81,132	0.2	55,356	0.1	+ 20	- 32
752300	- Digital processing units, whether or not presented with the rest of a system, which may contain in the same housing one or two of the following types of units: storage units, input units, output units	603,173	1.8	1,119,583	2.7	+ 113	+ 86
752500	- Peripheral units, control and adapting units	594,849	1.8	698,323	1.7	+ 25	+ 17
752800	- Off-line data processing equipment, n.e.s.	105	*	115	*	=	+ 10
	Television receivers	1,048,316	3.1	1,838,692	3.9	+ 93	+ 56
761110	- Colour television receivers combined with radio-broadcast receivers or sound or video recording or reproducing apparatus	46,928	0.1	94,985	0.2	+ 591	+ 102
761190	- Other colour television receivers	895,989	2.7	1,350,386	3.2	+ 78	+ 51
761210	- Black and white or other monochrome television receivers combined with radio-broadcast receivers or sound or video recording or reproducing apparatus	80,719	0.2	85,099	0.2	+ 187	+ 5
761290	- Other black and white or other monochrome television receivers	24,762	0.1	100,222	0.2	+ 291	+ 305
	Radio-broadcast receivers excl. radio chassis	3,864,077	11.6	4,350,040	10.4	+ 16	+ 13
762101	- Car radio-recorders	99,076	0.3	185,736	0.4	- 20	+ 87
762102	- Car radios, without recorder	5,718	*	2,259	*	- 56	- 60
762201	- Portable radio-recorders	1,629,752	4.9	2,187,984	5.2	+ 27	+ 34
762202	- Portable radios, without recorder	1,257,659	3.8	1,232,440	2.9	+ 11	- 2
762807	- Radio-clocks	856,349	2.6	723,565	1.7	+ 35	- 16
762808	- Radio-Hi-Fi recorders	15,328	*	17,892	*	- 39	+ 16
762809	- Radio-Hi-Fi, without recorder	195	*	274	*	=	+ 41
763180	Gramophone-record players	1,052	*	94	*	- 57	- 91
763810	TV recorders	10	*	35	*	- 99	+ 250
	Cassette tape recorders	878,770	2.6	892,423	2.1	+ 83	+ 2
763881	- Cassette tape recorders	269,284	0.8	281,707	0.7	+ 43	+ 5
763882	- Cassette tape recorders for office use	609,486	1.8	610,716	1.5	+ 109	*
764101	Electrical line telephonic apparatus	1,673,482	5.0	1,656,748	3.9	+ 16	- 1
764102	Electrical line telegraphic apparatus	77	*	38,771	0.1	=	..
	Hi-Fi equipment	121,247	0.4	185,122	0.4	+ 29	+ 53
764201	- Microphones and stands therefor	6,321	*	8,502	*	- 47	+ 35
764202	- Loudspeakers	48,283	0.1	73,385	0.2	+ 15	+ 53
764203	- Audio-frequency electric amplifiers	20,239	0.1	30,819	0.1	+ 20	+ 52
764207	- Headphones, earphones and combined microphone/speaker sets	46,203	0.1	71,815	0.2	+ 102	+ 55
764209	- Amplifier units, n.e.s.	131	*	-	-	+ 21	- 100

Value : HK$'000

SITC Code/Description	1986		1987		% Change	
	Value	% Share	Value	% Share	86/85	87/86
	Transmitter-receivers	277,256	0.8	341,630	0.8	+ 272	+ 23
764301	- Walkie-talkies	134	*	14	*	- 78	- 90
764308	- Paging apparatus	1,340	*	592	*	- 75	- 82
764309	- Other radio transmitter receivers	275,582	0.8	341,024	0.8	+ 306	+ 24
764811	Radio-telephonic receivers	414,262	1.2	698,312	1.7	+ 17	+ 69
764822	Close-circuit, TV system	-	-	151	*	-	-
764831	Radio navigational aid apparatus	109,363	0.3	177,334	0.4	+ 16	+ 62
764839	Telecommunications equipment, n.e.s.	111,377	0.3	175,251	0.4	+ 72	+ 57
764838	Aerials and aerial reflectors of all kinds; parts suitable for use therewith	47,665	0.1	66,756	0.2	..	+ 40
771210	Static converters, rectifiers and rectifying apparatus	229,255	0.7	347,584	0.8	+ 32	+ 52
775863	Domestic microwave ovens	27,824	0.1	60,315	0.1	n.a.	+ 116
	Alarms	278,372	0.8	353,779	0.8	+ 72	+ 27
778831	- Fire alarms and smoke detectors	136,378	0.4	178,418	0.4	+ 46	+ 31
778832	- Burglar alarms	141,994	0.4	175,361	0.4	+ 109	+ 23
	Electronic measuring, checking, analysing instruments	36,089	0.1	85,991	0.2	+ 56	+ 138
874810	- Electronic automatic regulators	3,511	*	7,246	*	+ 317	+ 106
874830	- Electronic measuring, checking, etc., instruments, n.e.s.	32,578	0.1	78,745	0.2	+ 46	+ 142
881121	Photographic electronic flash unit	167,800	0.5	204,591	0.5	+ 11	+ 22
	Electronic watches	7,246,816	21.7	8,820,773	21.0	+ 24	+ 22
885111	- Electronic watches, digital	2,271,427	6.8	2,129,707	5.1	+ 8	- 6
885113	- Electronic watches, quartz-analog	4,881,803	14.6	6,573,611	15.6	+ 35	+ 35
885114	- Electronic watches, digital-analog	93,586	0.3	117,455	0.3	- 2	+ 26
885210	Instrument panel clocks and clocks of a similar type, for vehicles, aircraft or vessels	3,327	*	5,100	*	- 64	+ 53
885221	Electronic clocks	529,489	1.6	611,389	1.5	+ 35	+ 15
	Electronic toys	75,679	0.2	89,857	0.2	+ 7	+ 19
894227	- Toys containing internal combustion motor, radio controlled	21	*	-	-	-	- 100
894229	- Toys (excluding dolls), metal, containing electric motor, radio controlled	1,282	*	8,703	*	..	+ 579
894232	- Toys (excluding dolls), plastic, containing electric motor, radio controlled	74,376	0.2	81,154	0.2	+ 5	+ 9
	Electronic games	728,080	2.2	1,111,031	2.6	+ 92	+ 53
894242	- TV games' cartridges	34,030	0.1	37,817	0.1	+ 21	+ 11
894243	- TV games	30,554	0.1	53,901	0.1	- 13	+ 76
894244	- Electronic games, hand-held	403,547	1.2	250,381	0.6	+ 101	- 38
894245	- Electronic games, not hand-held	259,949	0.8	769,452	1.8	+ 131	+ 196
898250	Electro-magnetic, electrostatic, electronic and similar musical instruments (e.g. pianos, organs, accordions)	1,701	*	5,089	*	- 70	+ 199
	Audio cassette tapes	384,910	1.2	384,015	0.9	*	*
898311	- Tapes for sound recording, cassette type	357,150	1.1	349,458	0.8	*	- 2
898321	- Recorded tapes, sound, cassette type	27,760	0.1	34,557	0.1	- 2	+ 24
	Audio tapes, not cassette type	69,817	0.2	62,055	0.1	- 10	- 5
898312	- Tapes for sound recording, not cassette type	59,642	0.2	61,827	0.1	- 9	+ 4
898322	- Recorded tapes, sound, not cassette type	175	*	228	*	- 85	+ 30

Value : HK$'000

SITC Code/Description		1986		1987		% Change	
		Value	% Share	Value	% Share	86/85	87/86
	Video tapes	1,380,801	4.1	1,392,779	3.3	+ 145	+ 2
898318	- Video tapes, not recorded	1,310,216	3.9	1,369,835	3.3	+ 145	+ 5
898328	- Video tapes, recorded	50,585	0.2	22,944	0.1	+ 129	- 55
	Other sound recording media	26,389	0.1	35,127	0.1	- 45	+ 33
898319	- Other sound recording media, not recorded	18,170	0.1	20,110	*	- 51	+ 11
898329	- Other sound recording media, recorded	8,219	*	15,017	*	- 27	+ 83
899610	Hearing aids	518	*	267	*	- 55	- 48
	Parts and Components	11,837,119	33.1	14,525,778	34.6	+ 3	+ 22
759190	Parts and accessories of photo/thermo-copying apparatus	9,484	*	18,014	*	+ 37	+ 90
759901	Parts of and accessories for adding, calculating and similar machines	225,431	0.7	451,198	1.1	- 76	+ 100
759909	Parts of and accessories for data processing equipment	4,327,341	13.0	5,007,322	11.9	- 2	+ 16
762801	Radio chassis	1,834	*	1,851	*	- 34	+ 1
764911	Parts, n.e.s. of electrical line telephonic apparatus	304,258	0.9	359,363	0.9	+ 91	+ 18
764912	Parts, n.e.s. of electrical line telegraphic apparatus	261	*	584	*	- 90	+ 124
764920	Parts of microphones, loudspeakers and amplifiers	85,847	0.3	135,956	0.3	+ 129	+ 58
764932	Parts of TV receivers	610,899	1.8	1,038,542	2.5	+ 52	+ 70
764933	Parts of radios	1,611,799	4.8	2,142,423	5.1	+ 12	+ 33
764939	Parts of telecommunications equipment, n.e.s.	275,758	0.8	470,282	1.1	+ 34	+ 71
764999	Parts of and accessories for gramophones, sound recorders and tape recorders	243,242	0.7	510,412	1.2	- 8	+ 110
772105	Electronic connectors	13,601	*	24,335	0.1	n.a.	+ 79
772201	Printed circuits, n.e.s.	663,749	2.0	1,093,783	2.6	+ 33	+ 65
772301	Resistors, fixed or variable (including potentiometers), other than heating resistors, n.e.s.	120,618	0.4	169,586	0.4	+ 2	+ 41
772309	Parts, n.e.s. of resistors, fixed or variable, other than heating resistors	10,536	*	14,843	*	+ 157	+ 41
776301	Diodes	54,234	0.2	78,492	0.2	- 2	+ 45
776302	Transistors	553,370	1.7	727,801	1.7	+ 10	+ 31
776303	Semi-conductor devices	16,108	*	19,558	*	+ 29	+ 21
776305	Photocells	26,459	0.1	41,787	0.1	+ 160	+ 58
776401	Microassemblies	-	-	147	*	-	=
776402	Integrated microcircuits, mounted	641,638	1.9	776,025	1.8	- 23	+ 21
776403	Integrated microcircuits, unmounted	22,276	0.1	23,677	0.1	+ 124	+ 6
776810	Piezo-electric crystals, mounted	44,736	0.1	25,381	0.1	+ 72	- 43
776890	Electronic components and parts, n.e.s.	431,956	1.3	556,455	1.3	+ 71	+ 29

Value : HK$'000

SITC Code	Description	1986 Value	1986 % Share	1987 Value	1987 % Share	% Change 86/85	% Change 87/86
778840	Electrical condensers	114,127	0.3	93,062	0.2	+ 37	- 19
871092	Liquid crystal devices	203,382	0.5	258,922	0.5	+ 37	+ 27
885131	Electronic watch movements	333,322	1.0	366,321	0.9	+ 55	+ 10
885251	Electronic clock movements	28,417	0.1	25,215	0.1	+ 121	- 11
894234	Electronic components for TV games and electronic games	62,306	0.2	72,970	0.2	+ 120	+ 17

n.e.s. Not elsewhere specified - Nil * Insignificant .. Over 1,000% increase ∞ Infinity

n.a. Not applicable because the items were not separately classified in 1985

As at September 1987

No. of establishments manufacturing electronic products in Hong Kong# : 1,180

No. of persons employed : 78,382

Refer to SIIC code 3834

Sources : Hong Kong Trade Statistics
Report of Employment, Vacancies and Payroll Statistics
Census and Statistics Department

HONG KONG'S DOMESTIC EXPORTS OF ELECTRONICS

- By Major Markets -

Value: HK$'000

Major Markets (Selection based on 1987 figures of Total Electronics)	Ranking in Total Electronics		1986									1987								
			Finished Products			Parts & Components			Total Electronics			Finished Products			Parts & Components			Total Electronics		
	1986	1987	Value	% Share	% Change 86/85	Value	% Share	% Change 86/85	Value	% Share	% Change 86/85	Value	% Share	% Change 87/86	Value	% Share	% Change 87/86	Value	% Share	% Change 87/86
WORLD			22,328,441	100.0	+ 37	11,037,119	100.0	+ 3	33,365,560	100.0	+ 24	27,302,608	100.0	+ 23	14,525,778	100.0	+ 32	42,028,386	100.0	+ 26
U.S.A.	1	1	10,718,397	48.0	+ 29	3,958,285	35.9	*	14,676,682	44.0	+ 20	11,546,135	42.0	+ 8	4,589,303	31.0	+ 14	16,035,438	38.2	+ 9
China	2	2	344,565	1.5	- 63	2,935,739	26.6	- 7	3,278,324	9.8	- 20	498,653	1.8	+ 46	4,652,103	32.0	+ 58	5,150,756	12.3	+ 57
F.R. Germany	3	3	1,735,168	7.8	+ 81	580,321	5.3	+ 23	2,315,489	6.9	+ 62	2,305,960	8.4	+ 33	609,920	4.2	+ 5	2,915,880	6.9	+ 26
U.K.	4	4	1,219,399	5.5	+ 65	333,432	3.0	- 49	1,552,831	4.7	+ 12	1,990,434	7.2	+ 63	263,779	1.8	- 21	2,254,213	5.4	+ 45
Netherlands	5	5	578,674	2.6	+ 59	399,105	3.6	+ 15	977,779	2.9	+ 38	1,028,336	3.7	+ 78	567,358	3.9	+ 42	1,595,694	3.8	+ 63
France	10	6	606,987	2.7	+112	130,805	1.2	+ 79	737,792	2.2	+106	1,290,442	4.7	+113	139,281	1.0	+ 7	1,429,803	3.4	+ 94
Singapore	7	7	255,075	1.1	+ 46	611,875	5.5	+ 60	866,950	2.6	+ 36	329,545	1.2	+ 33	1,028,672	7.1	+ 68	1,358,217	3.3	+ 58
Japan	6	8	587,126	2.6	+ 70	302,863	2.7	+ 32	889,989	2.7	+ 55	710,222	2.6	+ 21	487,208	3.4	+ 61	1,197,430	2.8	+ 35
Italy	11	9	581,955	2.5	+ 59	131,491	1.2	+ 5	693,446	2.1	+ 45	926,278	3.4	+ 45	98,733	0.7	- 25	1,025,011	2.4	+ 48
Canada	9	10	636,733	2.9	+ 20	128,965	1.2	- 7	767,898	2.3	+ 14	704,853	2.6	+ 10	234,887	1.6	+ 82	939,540	2.2	+ 22
F. Spain	8	11	783,040	3.5	+126	18,263	0.2	+ 99	801,303	2.4	+125	917,145	3.3	+ 17	17,319	0.1	- 5	934,464	2.2	+ 17
Australia	12	12	454,241	2.0	+ 29	35,396	0.3	+ 9	490,237	1.5	+ 27	545,235	2.0	+ 20	50,554	0.3	+ 40	595,829	1.4	+ 22
Taiwan	14	13	42,551	0.2	+ 23	289,831	2.6	+ 66	332,382	1.0	+ 39	71,893	0.3	+ 69	466,041	3.2	+ 61	537,934	1.3	+ 62
Panama	13	14	386,579	1.7	+ 45	3,276	*	+216	389,855	1.2	+ 45	461,976	1.7	+ 20	2,835	*	- 13	464,811	1.1	+ 19
Sweden	15	15	250,566	1.1	+ 60	48,131	0.4	- 20	298,717	0.9	+ 38	320,330	1.2	+ 28	65,369	0.5	+ 36	385,899	0.9	+ 29
Others			3,167,345	14.2	+ 49	1,123,741	10.2	+ 24	4,286,086	12.9	+ 42	3,845,131	14.0	+ 21	1,332,536	9.2	+ 18	5,177,667	12.3	+ 21
E.E.C. (12)			5,892,130	26.4	+ 31	1,715,135	15.5	- 6	7,607,325	22.8	+ 50	9,071,210	33.0	+ 54	1,894,173	13.0	+ 10	10,965,383	26.1	+ 44

* Insignificant

Source: Hong Kong Trade Statistics
Census and Statistics Department

协 议 书

深 字(8)第 号

甲方：深圳 公司 协同 县

工厂。

乙方：

双方在遵守中华人民共和国法律和有关规定的前提下，本着平等互利的原则，就来料加工 业务，进行充分协商，一致达成如下条款：

一、双方责任：

甲方责任：

①甲方工厂提供有上盖的厂房 平方米，无上盖的场地平方米，生产工人 名，在协议有效期内代乙方加工生产上述字号。加工产品交回乙方复出香港。

②甲方工厂提供现有的水电设备供加工生产之用。如需新安装水、电设施，其设施及安装费用由乙方负责。

③协助乙方办理来料加工有关业务的进出口手续。

④负责派出厂长、财务会计、仓管人员。负责工厂的管理及财务管理。

乙方责任：

①不作价提供加工、生产上述字号所需的设备（详见清单），分批运抵甲方工厂。设备价值约 港元，其产权归乙方所有。

②不作价提供加工 上述产品 所需的原料、辅料和包装物料。提供的数量、规格在具体的生产合同中订明。

③工人如因工作不力，经教育无效者，乙方有权向甲方提出调换意见，但不得擅自解雇工人。

二、加工数量：

第一年乙方来料加工 ，甲方的加工费约 港元。从第二年开始乙方的加工数量应在前一年的基础上有所增加，具体数量、规格应在生产合同中订明。

三、加工作价原则和工缴费：

①试产（培训）期为 一 个月。在试产期内，工人每人每月工缴费暂定为450港元支付（每人每月工作日二十五天半，每天工作八小时）。乙方如确实要赶货加班，必须徵得甲方同意，工人加班的加工费除按正常的加工费定额支付外，还需另加津贴费。

②试产期满后，采取按件计酬的方式，在坚持互利的原则的基础上，甲方和乙方应根据加工的品种、规格、款式和工艺繁简不同进行定价，并在每批货的加工生产合同中订明（为确保工人的合理收入，工缴费平均每人每月不低于500 港元，若低于500 港元，则乙方按此数计足甲方工人的工缴费。

③甲方工厂生产消耗的水、电费用，由乙方负责支付。

④甲方提供的厂房及生产用地应由乙方以每月按固定工缴费 港元通过中国银行结汇给甲方。

⑤乙方应付的加工费（工缴费）不能以任何方式直接支付人民

币给工人，应通过中行结汇给甲方，由甲方按国家有关规定办理。

四、损耗率：

①工厂试产期内的产品损耗，实报实销。

②工厂试产期满后的产品损耗率，由双方商定，并在生产合同中具体订明。

五、来料和产品交货期：

①乙方按本协议规定的加工量，按月提供足够数量的原辅料和包装物料。为保障甲方工厂能正常生产，乙方须在每批产品开始生产前 10 天，将所需的原辅材料及包装物料运抵甲方工厂。除因人力不可抗拒的原因，乙方来料不足，造成甲方工厂每月生产不足25天，~~停工累计不得超过——天。~~否则，乙方应按在厂工人以停工天数计，每人每天补助生活费 10 港元，支付给甲方。

②甲方工厂应按双方商定交货期，按时、按质、按量交货给乙方。如非人力不可抗拒的原因，甲方不按时、按质、按量交货，造成乙方经济损失，甲方应负赔偿之责任，赔偿数额可具体在合同中订明。

③由乙方提供的机械、通风、照明等设备及原辅材料、包装物料，由乙方运至甲方工厂，在甲方工厂由甲乙双方进行交收。甲方工厂加工后的成品，在甲方工厂经乙方验收后起运。甲方不负产品

短缺和返工的责任。若乙方要求返工，则乙方要付返工费用。

六、结汇方式：

甲方工厂的工缴费每月结算一次，以D/P即期结汇或支票方式结汇，由甲方工厂会同深圳　　公司，通过中国银行　　行向乙方在香港开户的　　银行（帐号　　）办理。乙方超过15天仍未付款给甲方，则按逾期的天数，按当时香港银行利息一并付给甲方。乙方在30天内不结汇，甲方有权采取停止出货或其他措施。

七、运输和保险：

①甲方提供的机械、设备、原辅材料、包装物料及甲方工厂加工之后的产品运费等费用，均由乙方负责。

②原辅材料、包装物料的运进，产品的运出及加工期间存厂的机械，设备、原料和包装物料，由乙方向中国人民保险公司　　投保。劳工、厂房及补偿的设备由甲方负责投保。

八、技术交流：

在乙方机械、设备运抵甲方工厂后，乙方应尽快派出人员进行安装，甲方派出人员进行协助。从试产期开始，乙方应派出技术人员对甲方工厂的工人进行技术培训，直至工人能基本掌握生产技术，进行正常生产时为止。乙方技术人员的工资及一切费用，由乙方负责。甲方为乙方的技术人员提供生活的方便条件。

九、协议期限：

本协议经批准及双方签字后生效。有效期为　　年，即一九

年　月　日至一九　年　月　日止。如要提前终止或延长本协议，需要在三个月前通知对方，并经双方协商处理终止或延长协议事宜，但需经原批准机关批准后执行。某方单独提前终止协议书，要负责补偿对方的经济损失。补偿的办法，应根据终止协议前半年的每月平均工缴费标准，补偿一个月工缴费总额给对方。

协议期满后，不动资产（如厂房、宿舍）及乙方作价提供的机械设备等归甲方所有。由乙方不作价提供的可动资产（如机械、车辆、通风设备）归乙方所有，并按海关和有关规定进行核销处理。

本协议生效后两个月内，一方不执行协议条款，则另一方有权提出终止此协议，并经原审批机关批准后生效。

本协议正本一式六份，甲方二份，乙方一份，均具同等效力。副本若干份。

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